

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2021-\_\_\_\_-E

IN RE:

Joint Application of Duke Energy	)	
Carolinas, LLC and Duke Energy Progress,	)	JOINT APPLICATION FOR
LLC for Approval to Transfer Certain	)	AUTHORITY TO TRANSFER
Intercompany Assets and for Related	)	INTERCOMPANY ASSETS AND
Accounting Authority	)	FOR APPROVAL OF
	)	ACCOUNTING AUTHORITY

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Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, LLC (“DEP”) (together, the “Companies”) hereby jointly apply to the Public Service Commission of South Carolina (“Commission”)—pursuant to S.C. Code Ann. §§ 58-27-1300 and 58-27-2090, S.C. Code Regs. 103-823, and other applicable rules and regulations of the Commission—for approval of an intercompany transaction between DEC and DEP for rotatable fleet spare (“RFS”) components in anticipation of scheduled maintenance outages to begin in August 2021. In light of the upcoming maintenance outages, the Companies respectfully request a final order from the Commission on or before July 30, 2021.

Through the transfer, the Companies seek to coordinate and optimize the management of the Companies’ respective RFS inventories and create potential maintenance outage cost savings through the transfer of RFS parts between them at fair market value. The Companies also seek approval, pursuant to S.C. Code Ann. § 58-27-1540, of the related accounting treatment. In order to account for the difference between the transfer price (i.e., market value) and cost of the RFS components, the Companies request authority to use Federal Energy Regulatory Commission

("FERC") Uniform System of Accounts account 182.3 (Other Regulatory Asset) and account 254 (Other Regulatory Liability) as described herein.

The Commission has previously approved similar transfers of RFS components and the associated accounting treatment as being consistent with the public interest.<sup>1</sup> The request for relief set forth within the Application would not involve a change to any of the Companies' retail rates or prices at this time or require any change in any Commission rule, regulation, or policy. In addition, the issuance of the requested accounting order would not prejudice the right of any party to address the prudence of these costs in the DEC's or DEP's next general rate case proceeding.

In support of this Petition, DEP and DEC respectfully show the Commission the following facts and petitions the Commission for the following relief:

#### **Name and Address**

1. The correct name and post office address of DEC are:

Duke Energy Carolinas, LLC  
Post Office Box 1321  
Charlotte, NC 28201

2. The correct name and post office address of DEP are

Duke Energy Progress, LLC  
Post Office Box 1551  
Raleigh, NC 27602-1551

#### **Notices and Communication**

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<sup>1</sup> Order No. 2018-830, Docket No. 2018-389-E (Dec. 19, 2018); Order No. 2018-554, Docket No. 2018-233-E (Sept. 18, 2018); Order No. 2018-268, Docket No. 2018-120-E (Apr. 11, 2018); Order No. 2016-523, Docket No. 2016-252-E (Aug. 2, 2016); Order No. 2015-630, Docket No. 2015-293-E (Aug. 26, 2015).

3. The name and addresses of the attorneys of the Companies who are authorized to receive notices and communications with respect to this petition are:

Heather Shirley Smith, Deputy General Counsel  
Duke Energy Carolinas, LLC  
40 West Broad St, Suite 690  
Greenville, SC 29601  
Telephone 864.370.5045  
heather.smith@duke-energy.com

and

Samuel J. Wellborn, Esquire  
ROBINSON GRAY STEPP & LAFFITTE, LLC  
1310 Gadsden Street  
Columbia, South Carolina 29201  
Telephone: (803) 929-1400  
swellborn@robinsongray.com

#### **Description of the Companies**

4. DEC and DEP are engaged in the generation, transmission, distribution, and sale of electric energy at retail in South Carolina and North Carolina. DEC also sells electricity at wholesale to municipal, cooperative, and investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the FERC.

5. The operations of DEC and DEP in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

#### **Intercompany Transfer of Assets**

6. While the used and useful lives of the Companies' generating units often extend over 30 years, certain parts must be replaced substantially more often. For example, both DEC and DEP have constructed multiple combustion turbine units in the past decade, which require certain turbine parts to be replaced approximately every three years. The maintenance of DEC's

and DEP's respective generating fleets require the Companies to maintain access to spare parts for planned routine maintenance outages and potential unplanned outages. Thus, the Company must incur the cost of holding RFS components in inventory or be able to access such new or refurbished parts relatively quickly to execute planned outages or respond to unplanned outages.

7. S.C. Code Ann. § 58-27-1300 provides that an electric utility must obtain Commission approval prior to transferring or consolidating utility property with a fair market value greater than \$1 million. The value of some of the RFS components to be transferred exceeds \$1 million. DEC and DEP hereby apply to the Commission for permission to transfer the components described and listed in Exhibit A to this application from DEC's Dan River Combined Cycle Station ("Dan River") to DEP's Sherwood H. Smith, Jr. Energy Complex ("Smith") in order to optimize their respective spare parts inventories ahead of maintenance to be performed during major planned outages at the Smith facility that are scheduled to begin in August 2021 ("Smith Planned Outage"). To that end, the Companies propose an inventory-to-inventory transfer of these components at the fair market value of \$18,111,091 from DEC to DEP as shown in Exhibit A.

8. The Companies assert that this request is in the public interest, as it would benefit the transferring utility by allowing efficient deployment of its RFS assets without penalizing the purchasing utility by requiring the transfer of used components to occur at the materially higher net book value, which in this case is \$24,789,800. DEC would be able to transfer the RFS components for which it has no immediate need, and DEP would be able to obtain assets it needs at a fair value. This increased coordination of inventory would result in the combined RFS inventory of DEC and DEP being reduced which would result in greater efficiency for DEC and DEP and their ratepayers.

9. As noted, this proposed transfer is in anticipation of maintenance to be performed during major planned outages at the Smith facility beginning in August 2021. For that reason, the Companies respectfully request a final order from the Commission on or before July 30, 2021.

### **Accounting Treatment**

10. If transfers of used RFS assets are made at market value, the purchasing utility and the selling utility will have to account for the difference between the transfer price (i.e., market value) and the book value of the RFS asset. DEC and DEP propose that the difference between the transfer price and cost be accounted for by the purchasing utility using FERC Uniform System of Accounts account 254 (Other Regulatory Liability) and by the selling utility using FERC Uniform System of Accounts account 182.3 (Other Regulatory Asset). The fair market value of these assets is lower than the book value; therefore, that is the value DEC and DEP propose to base their accounting treatment on.

11. DEC and DEP propose to record acquired RFS components in its plant, accumulated depreciation, and inventory accounts at net book value. DEP will also record a regulatory liability of (\$6,678,708) for the difference between the net book value recorded and the value of the assets, which will be amortized to reduce the cost of service over a relatively short period of time. DEC will remove the RFS assets from its rate base accounts at net book value, but will record the difference between those amounts and the payment received as a regulatory asset value of \$6,678,708, which will be amortized as an increase to the cost of service over a similarly short time period. This treatment will remove a disincentive for the recipient in any given case to engage in an affiliate transaction likely to be economic, and will result in a more economic use of the combined RFS assets of the two utilities. The proposed accounting and cost of service treatment is consistent with appropriate ratemaking practices and prior practice. The recipient and

its ratepayers will not be required to bear more than the lower of cost or market value for acquired rate base assets and the transferor and its ratepayers will not be required to pay more than the original cost less the proceeds received from the recipient.

12. Pursuant to S.C. Code Ann. § 58-27-1540, the Companies request that the Commission approve the use of FERC accounts 254 and 182.3 for the used RFS asset transfers at market value. DEC and DEP are required by Section 5.7 of the Regulatory Conditions to file Annual Reports of Affiliated Transactions in South Carolina. The most recent revised Annual Report of Affiliate Transactions was filed with the Commission on July 28, 2020 in Docket No. 2011-158-E. Allowing the requested accounting treatment will not diminish the Commission's authority to review the prudence of the transfers or the appropriateness of the pricing in future proceedings including rate-making dockets, and there is therefore no disadvantage to allowing the Companies to properly account for the at-market transfers.

13. The request does not involve a change to any DEC or DEP rate or tariff. As a result, consistent with S.C. Code Ann. § 58-27-870(F), the Companies submit that neither notice to the public nor a hearing is necessary. In light of the upcoming need for the transfer, the Companies request approval by the Commission without the need for notice or a hearing.

### **Conclusion**

WHEREFORE, for the foregoing reasons, and for good cause shown, the Companies respectfully request that the Commission:

1. Grant the Companies' request to transfer the RFS components from DEC to DEP without the need for notice or hearing;
2. Approve the use of Uniform System of Accounts accounts 182.3 and 254 for purposes of accounting where appropriate;

3. Issue a final order granting the relief requested herein on or before July 30, 2021; and
4. Any other relief that the Commission deems appropriate consistent with that requested herein.

Heather Shirley Smith, Deputy General Counsel  
Duke Energy Carolinas, LLC  
40 West Broad St, Suite 690  
Greenville, SC 29601  
Telephone 864.370.5045  
heather.smith@duke-energy.com

and

s/ Samuel J. Wellborn

Samuel J. Wellborn (SC Bar No. 101979)  
ROBINSON GRAY STEPP & LAFFITTE, LLC  
P.O. Box 11449  
Columbia, SC 29211  
(803) 929-1400  
fellerbe@robinsongray.com  
swellborn@robinsongray.com

Attorneys for Duke Energy Carolinas, LLC and  
Duke Energy Progress, LLC

Columbia, South Carolina  
June 9, 2021

## Exhibit A

## Proposed Transfer Details

Component	Inventory Item AUP	Qty	Total Set AUP	Accum. Depreciation	Net Book Value	Intervals Used	OEM Intervals	Fair Company Value	DEC Regulatory Asset	DEP Regulatory Liability
Stage 1 Bucket	\$32,637	91	\$2,969,967	-\$241,509	\$2,728,458	1	3	\$1,979,978	\$748,480	-\$748,480
Stage 1 Bucket	\$32,637	1	\$32,637	-\$2,654	\$29,983	1	3	\$21,758	\$8,225	-\$8,225
Stage 2 Bucket	\$20,660	91	\$1,880,060	-\$152,881	\$1,727,179	1	3	\$1,253,373	\$473,806	-\$473,806
Stage 2 Bucket	\$20,660	1	\$20,660	-\$1,680	\$18,980	1	3	\$13,773	\$5,207	-\$5,207
Stage 1 Shroud Block	\$808,544	1	\$808,544	-\$65,748	\$742,796	1	3	\$539,029	\$203,766	-\$203,766
Stage 2 Shroud Block	\$468,988	1	\$468,988	-\$38,137	\$430,851	1	3	\$312,659	\$118,193	-\$118,193
Stage 1 Nozzle	\$1,542,563	1	\$1,542,563	-\$125,437	\$1,417,126	1	3	\$1,028,375	\$388,751	-\$388,751
Stage 2 Nozzle	\$1,480,860	1	\$1,480,860	-\$120,419	\$1,360,441	1	3	\$987,240	\$373,201	-\$373,201
Stage 3 Nozzle	\$1,410,159	1	\$1,410,159	-\$114,670	\$1,295,489	1	3	\$940,106	\$355,383	-\$355,383
Caps	\$29,568	14	\$413,951	-\$61,975	\$351,977	1	2	\$206,976	\$145,001	-\$145,001
Liners	\$46,604	8	\$372,832	-\$55,819	\$317,013	1	2	\$186,416	\$130,597	-\$130,597
Liners	\$46,604	2	\$93,208	-\$13,955	\$79,253	1	2	\$46,604	\$32,649	-\$32,649
Liners	\$46,604	4	\$186,416	-\$27,909	\$158,507	1	2	\$93,208	\$65,299	-\$65,299
Transition Pieces	\$85,859	14	\$1,202,030	-\$179,962	\$1,022,068	1	2	\$601,015	\$421,053	-\$421,053
Stage 1 Shroud	\$18,509	32	\$592,303	-\$88,677	\$503,626	1	3	\$394,869	\$108,758	-\$108,758
Stage 2 Shroud	\$368,066	1	\$368,066	-\$55,105	\$312,961	1	3	\$245,377	\$67,584	-\$67,584
Stage 2 Nozzle	\$1,227,012	1	\$1,227,012	-\$183,702	\$1,043,310	1	3	\$818,008	\$225,302	-\$225,302
Stage 3 Shroud	\$309,599	1	\$309,599	-\$46,352	\$263,247	1	3	\$206,399	\$56,848	-\$56,848
Stage 3 Nozzle	\$1,200,308	1	\$1,200,308	-\$179,704	\$1,020,604	1	3	\$800,205	\$220,399	-\$220,399
Caps	\$29,568	14	\$413,951	-\$61,975	\$351,977	1	2	\$206,976	\$145,001	-\$145,001
Liners	\$46,604	8	\$372,832	-\$55,819	\$317,013	1	2	\$186,416	\$130,597	-\$130,597
Liners	\$46,604	2	\$93,208	-\$13,955	\$79,253	1	2	\$46,604	\$32,649	-\$32,649
Liners	\$46,604	4	\$186,416	-\$27,909	\$158,507	1	2	\$93,208	\$65,299	-\$65,299
Transition Pieces	\$85,859	14	\$1,202,030	-\$179,962	\$1,022,068	1	2	\$601,015	\$421,053	-\$421,053
Stage 1 Shroud	\$18,509	32	\$592,303	-\$88,677	\$503,626	1	3	\$394,869	\$108,758	-\$108,758
Stage 2 Shroud	\$368,066	1	\$368,066	-\$55,105	\$312,961	1	3	\$245,377	\$67,584	-\$67,584
Stage 2 Nozzle	\$1,227,012	1	\$1,227,012	-\$183,702	\$1,043,310	1	3	\$818,008	\$225,302	-\$225,302
Stage 3 Shroud	\$309,599	1	\$309,599	-\$46,352	\$263,247	1	3	\$206,399	\$56,848	-\$56,848
Stage 3 Nozzle	\$1,200,308	1	\$1,200,308	-\$179,704	\$1,020,604	1	3	\$800,205	\$220,399	-\$220,399
Stage 1 Bucket	\$30,830	92	\$2,836,357	-\$424,645	\$2,411,712	1	3	\$1,890,905	\$520,807	-\$520,807
Stage 1 Nozzle	\$1,340,604	1	\$1,340,604	-\$200,709	\$1,139,895	1	3	\$893,736	\$246,159	-\$246,159
Stage 2 Bucket	\$1,578,005	1	\$1,578,005	-\$236,251	\$1,341,754	1	3	\$1,052,003	\$289,751	-\$289,751
TOTAL:			\$28,300,856	-\$3,511,056	\$24,789,800			\$18,111,091	\$6,678,708	-\$6,678,708